

STATEMENT OF

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BEFORE THE

COMMITTEE ON ARMED SERVICES
READINESS SUBCOMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

ON

NATIONAL SECURITY PERSONNEL SYSTEM:
THE WAY FORWARD

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Mr. Chairman, Mr. Forbes, and distinguished members of the Subcommittee: Thank you for the opportunity to speak with you about the National Security Personnel System (NSPS) at the Department of Defense (DoD). NSPS implementation remains a critical area of focus for the Department; as of today we have over 200,000 employees operating under the system. I'd like to give you an update on implementation, challenges the Department has encountered, and what is being considered in the upcoming review being undertaken on NSPS.

You called this hearing to discuss NSPS and the way forward and specifically hear from the Department about its perspectives on NSPS. We are in our third year of implementation, and like any major transformation initiative, we have had our share of both challenges and successes. As we consider how to best move forward with NSPS, I can assure you that the Department is committed to operating fair, transparent, and effective personnel systems for our civilian workforce.

NSPS Implementation

In November of 2003, Congress authorized DoD to develop a more flexible civilian personnel management system – to improve our ability to execute our national security mission. In November 2005, after a comprehensive design process, the Department and the Office of Personnel Management (OPM) jointly published final NSPS regulations. In April 2006, the Department began its phased, or spiral, approach to deploying NSPS when approximately 11,000 employees from several DoD organizations were converted to the human resources provisions of NSPS, including pay banding, performance management, hiring and employment, and workforce reshaping. Between October 2006 and April 2007, we converted 108,000 employees; and between October 2007 and May 2008, an additional 70,000 employees. The most recent

conversions took place between October 2008 and February 2009, when an additional 14,000 civilians were moved under NSPS, bringing the total number of NSPS employees to approximately 205,000. Our implementation approach has been to convert only white collar non-bargaining unit employees to NSPS; however, there are currently 322 employees under NSPS who are represented by 16 bargaining units that organized after conversion to NSPS. The current NSPS population represents most of the civilian workforce that is eligible for conversion into NSPS, based on statutory and current policy parameters.

Before organizations converted to NSPS, there was a comprehensive and extensive initiative to train senior leaders, managers, supervisors, and employees on the core NSPS elements and on "soft" skills (for supervisors - how to coach and mentor employees, techniques for conducting effective performance conversations, and how to manage change; for employees - how to communicate and interact with their supervisor and focus on outcomes and results). This training was offered in a variety of formats and through diverse channels, from classroom instruction to online self-paced sessions, and represents one of the most extensive civilian-focused training initiatives ever undertaken by the Department. From the beginning of NSPS, we have worked hard to ensure that organizations have sufficient time and resources to prepare and train their workforce before moving under the system.

The Department recently announced that we are delaying further conversions of organizations into NSPS pending the outcome of the upcoming comprehensive review of NSPS. This decision affects approximately 2,000 employees in organizations scheduled to convert this spring. During the review, organizations and employees already covered by NSPS will continue to operate under current NSPS policies, regulations, and procedures. They will continue to hire, assign, promote, reward, and carry out other personnel actions necessary to accomplish their

missions. Before I address the review of NSPS, let me briefly describe where we are with the implementation and some of the key issues we are facing.

NSPS Regulatory Structure

The original NSPS statute was enacted in November 2003, and provided the Secretary of Defense, in regulations prescribed jointly with the Director of OPM, the authority to establish a flexible and contemporary civilian personnel system called the National Security Personnel System. NSPS was originally intended to cover most of the approximately 700,000 DoD civilian employees. Among its features, the original statute provided authority to establish a pay-for-performance system that recognizes and rewards employees based on performance and contribution to the mission; a broad pay-banding system to replace the 15 grades of the General Schedule; a simplified job classification process and flexible processes to assign new or different work; streamlined hiring processes and the ability to offer more competitive, market-sensitive compensation; reduction-in-force procedures with greater emphasis on performance as a factor in retention; expedited disciplinary and employee appeals processes for faster resolution of workplace issues; and a unique labor-management relations system. The Department and OPM jointly published final NSPS regulations in November 2005.

In the National Defense Authorization Act (NDAA) for Fiscal Year 2008 (Public Law 110-181), Congress made significant changes to the underlying NSPS statute, including repealing most of the provisions covering labor relations, adverse actions and appeals, and reduction in force. The core features of NSPS that were initially implemented were left essentially intact, including the pay banding and classification structure, compensation flexibilities, and the performance management system. The Duncan Hunter NDAA for FY2009

provided clarifying language regarding the NSPS staffing and employment provisions. Over the last year, the Department and OPM engaged in the rulemaking process to revise the NSPS regulations to conform to these statutory requirements. Final NSPS regulations for classification, pay, and performance management were published on September 26, 2008, while the final rule covering staffing and employment was published on January 16, 2009.

Major changes brought about by NDAA for FY2008 and are reflected in the revised regulations include:

(a) Organizations under NSPS follow government-wide rules for labor-management relations, disciplinary and adverse actions, employee appeals of adverse actions, and reduction in force;

(b) Federal Wage System (blue collar) employees are excluded by statute from coverage under NSPS;

(c) All NSPS employees with a performance rating above "unacceptable" or who do not have a current performance rating receive at least 60 percent of the annual General Schedule base pay increase, with the remaining amount (up to 40 percent) allocated to pay pools for the purpose of increasing rates of pay based on performance; and

(d) All NSPS employees under locality pay with a performance rating above "unacceptable" or who do not have a current performance rating receive locality pay in the same manner and extent as General Schedule employees. The statute also now requires that the regulations jointly prescribed by the Department and OPM be done so through the major rulemaking process, which includes public notice and opportunity for comment, as well as application of the Congressional Review Act. In addition, the statute accords these jointly prescribed regulations the status of government-wide rules for the purpose of collective

bargaining under the labor-management relations statute when the rules are uniformly applicable to all organizational or functional units included in NSPS.

In addition to conforming the regulations to these statutory changes, the Department and OPM modified the NSPS regulations based on what we learned from two years of operational experience under the system. Some of the more significant changes include:

(1) more detailed and specific guidance in the area of pay setting and compensation to address issues we encountered with the movement of employees into NSPS from other pay systems and vice versa;

(2) provisions for performance payouts when employees are on extended and approved paid leave;

(3) expansion of the performance rating reconsideration process to include the ability for employees to challenge the rating of an individual job objective in addition to the overall rating of record;

(4) a requirement for organizations to share with employees aggregate pay pool results (including average rating, ratings distribution, share value, and average payout) at the completion of the performance payout process to promote transparency of the pay pool process.

The staffing and employment subpart of the NSPS regulations was issued jointly by the Department and OPM to complete the regulatory structure for NSPS. This subpart covers rules pertaining to methods for recruitment for, and appointment to, NSPS positions and the methods for assignment, reassignment, detail, transfer, and promotion of employees into and within NSPS. The rule conforms to changes made in NDAA for FY2008 and the Duncan Hunter NDAA for FY2009, including the application of government-wide collective bargaining rules and continued adherence to veterans' preference requirements. These recently published

regulations reflect the Department's need for flexibility to attract, recruit, and retain a high quality workforce to meet its critical mission worldwide and respond quickly to a dynamic national security environment.

January 2009 Rating and Payout Results

This past January, the Department completed its third cycle under the NSPS pay-for-performance system, resulting in performance evaluations and payouts for close to 170,000 employees. For many, however, this was the first year under the system, since we added approximately 70,000 employees during fiscal year 2008. NSPS was designed to promote a performance culture in which performance expectations are aligned to the mission and organization goals, and the performance and contributions of civilians are better recognized and rewarded. The NSPS performance management system provides a rigorous and robust method for appraising and evaluating employee performance based on standard performance benchmarks, with safeguards in place to ensure employees are treated equitably and fairly. The pay-for-performance system represents perhaps the most significant change for our workforce, and is generally the source of most of the concerns regarding NSPS. I'd like to share with you some highlights of this year's results.

Last fall, over 1,600 NSPS pay pool panels convened to review and finalize performance assessments and appraisals, and allocate performance-based salary increases and bonuses. The pay pool process, which has a proven track record in our personnel demonstration projects, was designed to ensure that performance ratings and related pay decisions within an organization are accomplished in a consistent, fair, and rigorous manner. The pay pool process ensures that managers and supervisors apply consistent standards when rating employees and includes a

structured way for leaders to discuss individual and team performance within the context of mission and organizational goals.

Under NSPS, employees are evaluated on a five-level rating system, with “1” being unacceptable, “3” being a valued performer, and “5” representing role model performance. Of the approximately 170,000 employees rated last year, 55.4 percent received a Level 3 (Valued Performer); 38.3 percent received a Level 4 (Exceeds Expectations); and 4.7 percent received a Level 5 (Role Model). Less than two percent (1.3) of employees received a Level 2 (Fair), and only .3 percent received a Level 1 (Unacceptable) rating. The system was designed to achieve meaningful differentiation in levels of performance and the associated rewards based on rigorous standards. The benchmark for performance at the highest rating level represents a high bar, and is reserved for employees contributing exceptional results for the organization. Because NSPS is a pay-for-performance system, these performance ratings drive salary increases and bonuses, with exceptional performers receiving greater rewards, and unacceptable performers receiving no increase or bonus. This past year, the average performance-based salary increase was 3.67 percent, with an average cash bonus of 1.94 percent. All NSPS employees rated above unacceptable received an additional general base salary increase of 1.74 percent and an average locality increase of 1.0 percent (actual locality increases varied by location and were applied in the same manner and extent as General Schedule locality pay). The average total salary increase for NSPS employees in January 2009 was 6.41 percent. (This does not consider other salary increases NSPS employees may receive at other times, such as promotion increases, reassignment increases, special performance increases, and special accelerated increases for developmental employees.)

To ensure fairness in the system, a number of safeguards have been built into the process.

In addition to uniform performance measurement criteria across NSPS, there are multiple-level reviews of recommended ratings, share assignments, and payout distribution determinations. Not only does the supervisor/rating official offer a recommended rating based on an overall assessment of the employee's accomplishments, but these recommended ratings receive a higher-level review prior to the pay pool process. The pay pool panels also review and reconcile performance ratings to ensure consistency across the organization. Pay pool panel results are subject to a final review and approval by senior leadership, known as the Performance Review Authority. Also, NSPS regulations prohibit the practice of “forced distribution,” or the establishment of a predetermined distribution of ratings across the five levels. Employees also have the right to challenge their performance rating through a formal reconsideration process.

Key Successes and Challenges

NSPS represents a significant change, particularly in the area of pay and performance management. The performance management system was designed to align individual performance plans to organizational goals, and increase the communication between employees and supervisors about performance. The pay-for-performance system was designed to compensate and reward our civilian employees based on their performance and contribution. We knew from our experience with personnel demonstration projects that employees must perceive the evaluation system as fair and credible in order to gain the necessary buy-in, so we included various safeguards in the process. Recognizing that this kind of cultural shift takes time, we have been paying close attention to the perceptions and attitudes of the workforce, to assess our implementation and design, with an eye towards improving the system. Some common themes, both positive and negative, have emerged.

Our performance rating and payout results demonstrate that NSPS organizations are making meaningful distinctions in performance and the associated rewards. We are also seeing improvement in communication between employees and supervisors, and better alignment between performance plans and organizational mission and goals. In the 2008 DoD Status of Forces Civilian Survey, 70 percent of NSPS employees answered positively that their performance standards are directly linked to their organization's mission, compared to 65 percent of the non-NSPS workforce. When asked if they believe pay raises depend on how well employees perform their jobs, 42 percent of NSPS employee responded positively, compared to 25 percent of non-NSPS employees. Sixty percent of NSPS employees agreed that performance drives bonuses and cash awards, compared to 55 percent of the non-NSPS workforce. NSPS employees, overall, are generally more satisfied with their pay and the management in their organizations than their non-NSPS counterparts. And, according to the 2008 survey, NSPS employees are less likely than non-NSPS employees to leave DoD for another job. While these survey results indicate positive attitudes among NSPS employees regarding some aspects of the pay and performance management system, there are other indicators that are less positive. Employees and supervisors are struggling with the more stringent performance measures used in the evaluation process, and employees are questioning whether the ratings are fair. Some of the concern is over whether supervisors have the skills necessary to fairly assess performance, while others question the appropriateness of the pay pool panels being involved in performance ratings. Employees and supervisors, particularly those who are new in the system, often struggle to define measurable, results-oriented job objectives, and have difficulty in writing narrative assessments. We have also heard the concerns from employees and supervisors about the transparency of the pay pool process, and whether forced distribution is occurring despite our

prohibition on the practice.

Both the Government Accountability Office and OPM, in their formal assessments of NSPS, highlighted many of these issues, and pointed out that these kinds of reactions and perceptions are typical of broad change management initiatives like NSPS. They also recognize that it generally takes three to five years for new personnel systems to gain acceptance. However, the Department has taken steps to address many of these concerns. For example, we expanded our pay pool training offerings to include employees and supervisors who do not typically participate in pay pool panels but could benefit from a better understanding of how the process works. We enhanced our online training tools and automated performance management system to provide more help to employees and supervisors in developing job objectives and writing assessments. To address the issue of transparency, we revised our policies to require that organizations share aggregate pay pool results with employees, so they have a better understanding of how they fared compared to the rest of the workforce. In addition, my office is in the process of developing guidance for organizations designed to ensure that forced distribution of ratings is not occurring in the rating and pay pool panel process.

To address additional concerns over fairness and equity in the performance management process, the Department added a requirement to its NSPS policies that Defense Components annually conduct a thorough analysis of pay pool results to identify, examine, and remove barriers to similar rating and payout potential for demographic and other groups in the workforce, apart from differences based on individual performance or material job differences.

The Department has an on-going evaluation effort to monitor effectiveness and receive feedback on NSPS, including continuous learning through monitoring and lessons learned discussions, annual surveys of the DoD civilian workforce (including targeted sampling of NSPS

employees), field visits and focus groups with NSPS organizations, leadership meetings, and lessons learned workshops. In addition to internal reviews, the Department continues to work with OPM and GAO in their assessments of NSPS. OPM's 2007 report affirmed DoD's implementation preparations, concluding that DoD effectively planned for implementing NSPS and structured a well-organized and integrated phased implementation approach. OPM's 2008 report concluded there has been progress in all dimensions assessed (performance expectations are aligned to mission priorities, the workforce is held accountable to perform, and distinctions are made in employee performance and associated compensation), but cautioned that workforce attitudes about the performance system declined after the first year of its operations, noting that while such declines are normal with this kind of system transformation, DoD should pay attention to fairness and continue to share lessons learned. GAO also studied workforce attitudes and performance system safeguards and accountability mechanisms in 2008 (and will continue to do so through calendar year 2010), as mandated by NDAA for FY2008. GAO's 2008 report found that many safeguards exist, but workforce opinions suggested areas and room for improvement. GAO is currently conducting field visits for its 2009 report. Both OPM and GAO noted that when there is a major change to a personnel system, employee attitudes and perceptions typically decline initially as it generally takes from three to five years for employees to fully understand and accept the new system.

Comprehensive Review of NSPS

On March 16, 2009, the Department and OPM announced a review of NSPS to assess whether the program is fair, transparent, and effective. In addition, the Department decided to delay any further conversions of organizations to NSPS pending the outcome of this review.

Although we are working out the details of the review with OPM, the review will include a thorough examination of all NSPS policies, regulations, and practices. With over 200,000 employees in the system, and with new leadership under a new administration, the Department and OPM determined that it is appropriate and important for senior leadership to review the program, its underlying policies, and how it operates, before deciding on the future of the system. Currently DoD and OPM are engaged in discussions with key personnel in the administration to determine the overall framework, scope, and timeline of the review, including identifying who will lead it. It is expected to take several months for a review team to gather necessary information and data, reach out to stakeholders, and develop recommendations for leadership consideration. I can assure you that Deputy Secretary Lynn recognizes that there are a variety of viewpoints regarding NSPS, and is committed to a thorough examination that includes outreach to Congress, other Federal agencies, personnel management experts, labor organizations, and other stakeholders.

You asked that we discuss what is being considered in the program review. We expect that it will include a review of the underlying design principles of NSPS, including the guiding principles and key performance parameters found in the operational requirements document, and the extent to which the system is achieving its goals. We expect the review to also focus on key issues of fairness and transparency, not only in the design but also in the implementation. Another key issue to be examined is the effect of operating under NSPS for the non-bargaining unit workforce and the General Schedule system for our bargaining unit employees, and the challenges associated with that approach.

Although there exists a substantial amount of information, data, reports, and documents on NSPS, it is likely that the review will include visits to organizations operating under NSPS, to

speak directly to employees, supervisors, and senior leaders under the system, to gain their perspective and hear their concerns. The team may also obtain views on NSPS from labor unions, managers' and professional associations, employee groups, Members of Congress and their staff; and recognized experts in personnel management.

The goal of the review is to obtain an objective, thorough assessment of the program, resulting in recommendations to the Deputy Secretary and the Director, OPM, on a way forward for NSPS.

Conclusion

The Department is committed to an open, ongoing process of communication and consultation about NSPS with Congress, our employees and their representatives, and key stakeholders.

Thank you for your ongoing support of our DoD civilian workforce, and for providing me this opportunity to share our experiences with NSPS. I look forward to your questions.